

The Changing Face of India

By Maria Nemeth-Ek

Is India a crouching tiger, ready to take off and participate in world trade? While skeptics may underestimate the country's commercial potential, India has appeared on the radar screen of those with long-term vision.

It would be inadvisable to dismiss the opportunities implicit in this vibrant and culturally diverse country. India has the world's second largest population—over 1 billion inhabitants—and an economy that has expanded by an average 5-6 percent annually in recent years. The growing middle class—estimated at 20-50 million—has acquired new tastes, sophistication and demands.

Just a little over a decade ago, the country had political leanings toward the former Soviet Union and touted self-sufficiency at the expense of efficiency. India was practically closed to world trade.

Now, it is emerging as a significant power in Asia, and U.S.-Indian trade relations have improved. Its northern neighbor, China, has captured much of the limelight and significant levels of direct foreign investment, but wise businesses are taking a good look at this emerging market.

Market access has improved. For example, last April, the Indian government lifted its remaining quantitative restrictions on imports of foods and beverages.

However, importation is by no means without constraints. Tariffs on food products typically range from 40 to 63 percent;

for import-sensitive items, they can be much higher. Additional constraints include complex labeling requirements in Hindi, setting of maximum retail prices, administrative hurdles, cumbersome bureaucratic procedures, lack of cold chain facilities, fragmented distribution and an underdeveloped retail system.

Open to the New—But Loyal to the Familiar

India's population is about 82 percent Hindu, 12 percent Muslim, 2.3 percent Christian, 2 percent Sikh and the rest different beliefs. Religious background and income level highly influence food con-

sumption and preferences: many Indians are vegetarian; beef is taboo for most of the population; and there is a strong preference for fresh products and traditional spices and ingredients.

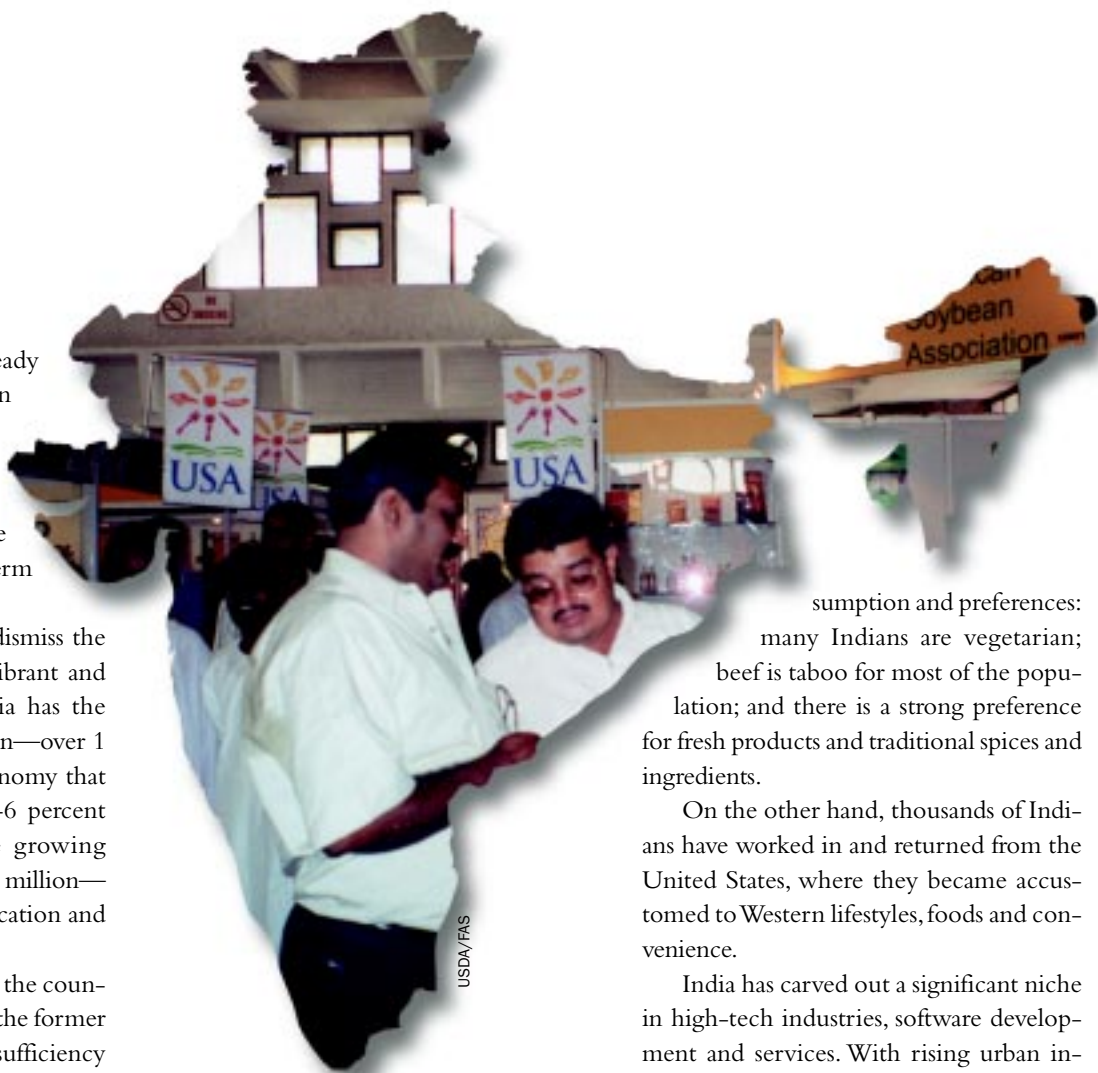
On the other hand, thousands of Indians have worked in and returned from the United States, where they became accustomed to Western lifestyles, foods and convenience.

India has carved out a significant niche in high-tech industries, software development and services. With rising urban incomes, more women in the workforce and more fast food outlets, acceptance of new food products is increasing, provided they are tailored to Indian tastes.

Shopping the Old-Fashioned Way

Since home refrigeration is still rather a luxury, most Indians shop daily at small neighborhood specialty shops. Processed foods are sold in small quantities suited to consumers' limited purchasing power.

Food products are sold in 3-4 million small grocery stores. The supermarket concept common to the United States is practically nonexistent. In size and looks, larger grocery and convenience stores resemble U.S. supermarkets of 40 years ago. No ma-



major foreign supermarket chain has opened outlets in India, although this will change with time and a more open trading environment. The southern parts of the country (Mumbai, Chennai, Bangalore, etc.) have more developed chains; however, they also are not comparable to typical U.S. outlets.

India's markets are supplied by about 400 distributors and suppliers, each typically handling 3 or 4 products. The share of imported products is small, primarily almonds, fruit juices, ketchup, chocolates, sauces, specialty cheeses, canned fruits and vegetables, peas and beans, snacks, cookies and cake mixes.

Distribution System

Container handling facilities are available at most major ports and in several cities. But the distribution system is highly fragmented, due to the country's large size, infrastructure limitations (roads, electricity, cold storage) and large number of retail stores.

Refrigerated warehousing and transportation facilities are limited and costly. Electricity capacity does not meet demand.

Initially, imports were shipped through regional hubs of Dubai, the United Arab Emirates, and Singapore, or through gray markets. Now more and more importers are preferring to source directly from producers. Once the products reach India, they are handled in a three-tiered structure: from distributor/dealers to wholesalers to retailers. These patterns are changing as marketeers search for more efficient approaches.

Local Markets and Retail Stores

India has a variety of local food stores, from traditional wet markets to small stores and mini-supermarkets. Most food stores in India focus on one food category—fruits and vegetables, meats or other grocery items. These small stores generally have about 300 square feet of floor space, with items stacked high on shelves along the walls and behind counters. Competing stores offering the same assortment of goods often face each other or stand next to each other. The few grocery chains in India can have up to 4,000 square feet of floor space and stock meats, produce, bakery products and other items.

Imported products, including well-known American brands, can be found in markets that cater to the expatriate and



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upper-income Indian communities. These markets tend to be in the higher income areas of the larger cities. The following items have appeared on Indian store shelves: chocolate syrup (Hershey's), peanut butter (Sippy, Planters, and an Australian brand), cake mixes (Betty Crocker), salsa (Giant private label), barbecue sauces (Kraft and Shop Rite), other sauces and bloody Mary mix (Tabasco), prunes and prune juice (Sunsweet and Del Monte), pie fillings (Comstock), juices (Ocean Spray and Tropicana), biscuits (Murrey), cheese dips and squeeze cheese (Bruce Co. and Old Fashioned Foods), Washington State Red Delicious apples, canned soups (Heinz and Campbell's), popcorn (Golden Valley), spices

(Gel Spice Co.), potato chips (Pringles), ice cream (Blue Bunny) and pet food (Purina and Iams).

The following markets stock imported food items in India. The list is by no means exhaustive but is just intended to give the reader an idea of the wide range of Indian retail outlets.

- I.N.A. in New Delhi:** This is a traditional wet market, with an enclosed row of small stores with a range of groceries, dried goods, spices, fresh fish, poultry and meats, and a seemingly endless winding row of outside stalls covered with canvas offering fruits, vegetables and non-food items. There are only a few shelf-stable imported grocery items available at I.N.A.
- Modern Bazaar in New Delhi:** This is the city's only supermarket. It measures less than 2,000 square feet and has three aisles. It is located in a middle-class neighborhood shopping center that has a movie theater and other places of entertainment for teenage and young customers. The Bazaar is well organized and stocked with a wide range of imports.
- Khan Market in New Delhi:** This market is made up of approximately 40-50 small stores, 15 of which carry food items. This market is frequented by the expatriate community and upper-income Indians. The food stores have a wide selection of shelf-stable imported goods including a varied assortment of imported fruits.

• Nilgiri's and Food World in South India:

These two grocery chains are expanding in South India and resemble U.S. convenience stores. They stock fruits, vegetables, meat, bakery items and grocery items. They have a small but growing selection of imported food items.

Strategy for Entering the Market

While the Indian market has great potential, success requires patience and steady application. Companies need to prepare for a long-term investment; to develop creative marketing strategies; and to be open to partnerships, technology transfer and two-way trade arrangements.

Due to infrastructure and distribution limitations of products in the retail sector, it would be best to focus on dehydrated, high-tech or other innovative products that require little or no refrigeration. India's food service sector is better able to support various product formats, so products face fewer limitations.

The most promising products include: fruits (apples, grapes, kiwi fruit), chocolates and cookies, frozen french fries, cheeses, fruit juices, snacks, popcorn, almonds, condiments, vegetable oils and other ingredients.

Companies need to do market research on the potential for their products and services before initiating export sales. There are many qualified firms in India that can help with this service. Before selecting an agent, it is important to check the reputation, the customer base, flexibility and size of the potential partner. Also, it's not unusual to appoint more than one representative for different locations and markets.

To test the market, U.S. companies may wish to participate in a food show or promotional event sponsored by the Office of Agricultural Affairs in New Delhi. Participa-



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tion in the U.S. Pavilion and American Café at the AAHAR 2002 food show, where samples are displayed and buyer interest is canvassed by professional staff, is a low-cost way to test the waters.

This year's AAHAR show will be held March 6-10, 2002, in New Delhi. Although the deadline for exhibiting has passed, U.S. firms may wish to visit the show. In addition, company representatives are encouraged to travel in the country to make contacts and assess market prospects. For more information, contact: Tobitha Jones, FAS Trade Show Office. Tel.: (202) 690-1182; Fax: (202) 690-4374; E-mail: Jones, Tobitha@fas.usda.gov

Business Is Buzzing—the AAHAR 2001 Show Experience

AAHAR is the premier food and processing equipment show in India. The 2001 show had about 200 exhibitors and an es-

timated 20,000 visitors. Although several foreign products were presented in individual booths (Canadian, Saudi, Spanish, Australian, British, Nepalese, Italian and Chinese), the United States had the only organized national pavilion. About 40-50 products were shown in the U.S. Pavilion, including macadamia nuts, raisins, juices, frozen potatoes, soy products, jams, peanut butter, pie fillings, sauces and dried fruits. These products generated a lot of interest.

The event provided an excellent opportunity to showcase U.S. food products literally days prior to the Indian government's elimination of all remaining quantitative restrictions on imports.

As was the case in Eastern Europe in the late 1980s, the companies at the 2001 show were looking beyond traditional ideas and ways of doing business, or changing profile due to environmental concerns. Some have considerable resources to devote to these objectives, and others have valuable distribution networks. Companies in the manufacturing business (e.g., paint or steel) or pure commodity trade (sugar or ingredients) have an interest in diversifying into processed food trade and joint ventures. ■

The author is the leader of FAS' Trade Show Office. Tel: (202) 720-3623; Fax: (202) 690-4374; E-mail: nemeth@fas.usda.gov

For more information on the Indian market, see FAS Report IN1058. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.

